

**INVESTMENT POLICY AND GUIDELINES
FOR THE
OFFICE OF TREASURY AND FISCAL SERVICES**

May 17, 2000

POLICY

It is the policy of the State Depository Board that the director of the Office of Treasury and Fiscal Services ("OTFS") invest all funds prudently, considering first the probable safety of capital and then probable income, while meeting daily cash flow requirements and conforming to all statutes governing the investment of public funds. This policy and the following guidelines shall pertain to the investment of state funds, public funds comprising the Local Government Investment Pool, and other funds in the possession of the Office of Treasury and Fiscal Services.

OBJECTIVES

The objectives in managing all investment activities shall be:

1. Safety of capital. Investments shall be managed in a manner that seeks to ensure preservation of principal in each portfolio of investments.
2. Liquidity. Each portfolio shall remain sufficiently liquid to enable the funding of all cash needs reasonably anticipated given the profile of each respective portfolio.
3. Investment income. Each portfolio shall be managed with the objective of obtaining a market rate of return taking into consideration cash flow requirements for each respective portfolio.
4. Diversification. To reduce overall portfolio risks while maintaining market rates of return, investments in each portfolio shall be diversified to eliminate risk of loss from an over concentration in a specific maturity, issuer (including repurchase agreement dealers), and security or class of securities.

The director shall establish limits for each investment portfolio to assure that prudent diversification and adequate liquidity is maintained.

TERM OF INVESTMENTS

To the extent necessary, the director should attempt to match investments with expected cash requirements. However, certificates of deposit may not have a term exceeding five years. The director may establish duration or maturity limitations for other investments.

AUTHORIZED INVESTMENTS

The director is authorized to invest funds in the invest portfolios in such securities permitted in the Code references below:

State General Funds/Local Government Investment Pool -
Investments authorized in O.C.G.A. §§50-17-2 and 50-17-63.

State Risk Management Fund and State Health Insurance Fund -
Investments authorized in O.C.G.A. §§50-17-2 and 50-17-63

CREDIT QUALITY

The director will place emphasis on securities of high credit quality and general marketability. The following credit constraints and limitations shall apply to all investment portfolios managed by OTFS:

- Repurchase agreements. Repurchase agreements and reverse repurchase agreements may be transacted with authorized dealers and banks having a minimum of \$75 million in capital, with maximum exposure per institution determined by the director and adjusted as needed due to the financial condition of such institutions and the size of the OTFS investment portfolios. Repurchase agreements must be collateralized by obligations of the United States and its subsidiary corporations and instrumentalities or entities sanctioned or authorized by the United States government having a market value of at least 102% of the investment. Collateral must be held by a third party custodian approved by the director and marked to market daily. Exceptions to the requirements for third party custody of collateral may be approved by the director for dealer banks if necessary on occasion. All exceptions shall be reported by the director to the State Depository Board. All reverse repurchase agreements shall be approved in advance by the director.
- Certificates of Deposit (“CD’s”). The maximum term of CD’s shall not exceed five years. OTFS shall not place funds in CD’s at any depository if such placement of funds will result in total state deposits at such depository in excess of 200% of total equity capital. Provided, however, that the director may authorize placement of funds in CD’s at a depository if such placement of funds will result in total state deposits not to exceed 250% of total equity capital on an as needed basis to allow for fluctuations in demand deposit balances. All CD’s must be secured by collateral permitted by statute. Surety bonds acceptable as security for CD’s shall require approval by the State Depository Board with such credit constraints or limitations it determines. Pledged securities shall be held by a third party custodian approved by OTFS. Pledged securities shall be marked-to-market at least monthly with depositories required to initially pledge to OTFS, and thereafter maintain upon notification of any shortfall, collateral having a market value equal to 110% of CD’s.
- Commercial paper (“CP”). CP issued by domestic corporations carrying ratings no lower than P-1 by Moody’s Investors Service and A-1 by Standard & Poor’s Corporation.

- Prime bankers acceptances. Bankers acceptances must carry the highest rating assigned to such investments by a nationally recognized rating agency.
- Obligations issued by this state or its agencies or other political subdivisions of this state. Such investments, if meeting statutory investment requirements, may be approved for investment by the director with the requirement that they are of high credit quality and are reported to the State Depository Board.
- Obligations of corporations. Obligations of domestic corporations must be rated investment grade or higher by a nationally recognized rating agency.
- Obligations issued by the government of any foreign country. Direct obligations of the government of any foreign country must be rated A or higher by a nationally recognized rating agency.
- International Bank for Reconstruction and Development or the International Financial Corporation. Obligations issued, assumed, or guaranteed by the International Bank for Reconstruction and Development or the International Financial Corporation must be rated A or higher by nationally recognized rating agency.
- Such other limitations as determined by the director to be necessary for the preservation of principal, liquidity, or marketability of any of the portfolios.

COMPETITIVE BIDDING REQUIRED

All investment transactions by OTFS (including, but not limited to, repurchase agreements, CD's, purchases and sales of U.S. government and agency obligations, and purchases and sales of obligations of corporations) shall be transacted by competitive bidding with procedures for each class of investment determined by the director. Exceptions may be made by the director but such shall be reported to the State Depository Board including the circumstances requiring such action. The director shall establish transaction procedures for investment advisors/managers on a case by case basis.

AUTHORIZED INSTITUTIONS

The director shall maintain a listing of financial institutions authorized to transact business with OTFS. Each depository shall be approved by the State Depository Board. The director may approve brokers and dealers of government securities to transact trades with OTFS with limits established based on firm's capitalization, execution capabilities, and other criteria. Brokers and dealers having offices in this state shall receive priority in the approval process to the extent that such limitations does not result in reduced investment performance or insufficient portfolio diversification.

INVESTMENT ADVISORS

The board acknowledges the authority of the director to contract with investment advisors and investment managers as the director deems appropriate. Any such services shall be subject to competitive bidding procedures established by the director; provided, however, that such procedures must consider the cost of the service provided and the quality of the service

provided. In the case of an emergency, the director may make an exception to the competitive bidding procedures, but any such exceptions must be reported to the board.

PERFORMANCE MEASUREMENT

The director shall be responsible for reporting to the State Depository Board each investment portfolio balance, maturity or duration distribution, market diversification, and investment performance. The director shall establish benchmarks for each investment portfolio.

CONFLICTS OF INTEREST

The director shall develop procedures to assure that all OTFS employees with investment responsibilities refrain from personal business or investment activity that would impair their ability to manage the investment portfolios in an impartial and effective manner.

LOCAL GOVERNMENT INVESTMENT POOL

In accordance with the requirements of GASB 31, funds comprising Georgia Fund 1 shall be managed in a manner consistent with Rule 2a-7 (of the Investment Company Act of 1940) like funds.

Funds comprising the Georgia Extended Asset Pool shall be managed as a variable net asset value fund.

(Revised May '00)